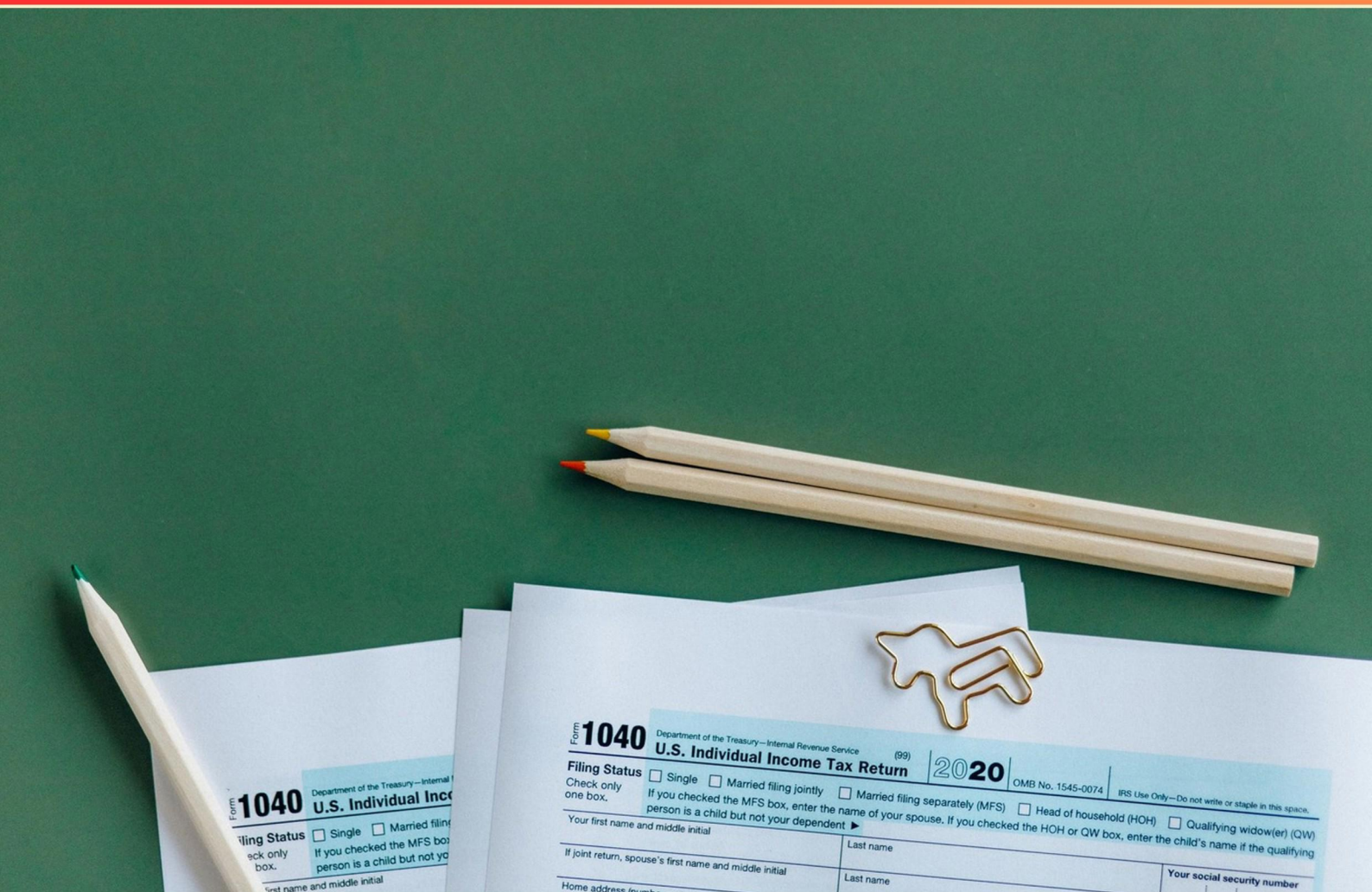


ADVANCED TAX CONCEPT 175 PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. Does the holding period of stock include the holding period of the inventory transferred?**
 - A. Yes, it always includes it
 - B. No, it ignores past holdings
 - C. Only some types of inventory
 - D. Only if the inventory is real estate
- 2. What is the basis of property inherited from a deceased individual according to tax regulations?**
 - A. Original purchase price
 - B. Value at the time of inheritance
 - C. Market value prior to the decedent's death
 - D. Average cost basis over time
- 3. Why is Jillian's long-term capital gain taxed at 25% if she is in the higher tax bracket?**
 - A. Because it is subject to alternative tax rates.
 - B. Because it is considered ordinary income.
 - C. Because she cannot be subjected to lower rates.
 - D. Because of her taxable income amount.
- 4. Which taxpayer qualifies as head of household in 2021?**
 - A. Marco only.
 - B. Tammy only.
 - C. Marco and Juan only.
 - D. Marco, Tammy, and Juan.
- 5. What defines a long-term holding period for capital assets?**
 - A. Held for 6 months or less.
 - B. Held for greater than 6 months.
 - C. Held for greater than 12 months.
 - D. Held for 24 months or less.

- 6. Which of the following would not qualify for like-kind exchange treatment?**
- A. Real property in the U.S. exchanged for U.S. property
 - B. Real property located in the U.S. for non-U.S. property
 - C. Land for investment land
 - D. U.S. real property for another U.S. real property
- 7. What is the § 1245 recapture gain amount for Blue Company when they sold machinery for \$45,000 that had an adjusted basis of \$34,200?**
- A. \$0 § 1231 gain, \$10,800 § 1245 recapture gain, \$0 § 1231 loss.
 - B. \$0 § 1231 gain, \$0 § 1245 recapture gain, \$14,800 § 1231 loss.
 - C. \$0 § 1231 gain, \$34,200 § 1245 recapture gain, \$0 § 1231 loss.
 - D. \$0 § 1231 gain, \$10,800 § 1245 recapture gain, \$34,200 § 1231 loss.
- 8. What is the most common method for searching electronic databases?**
- A. Keyword approach.
 - B. Boolean search.
 - C. Phrase matching.
 - D. Title search.
- 9. Which of the following describes the treatment of distributions from a partnership?**
- A. They are always taxable events
 - B. They increase the partner's basis
 - C. They reduce the partner's basis
 - D. They are considered capital gains
- 10. What is the impact of the \$20,000 distribution and partnership tax-exempt income on Zach's reported losses?**
- A. Zach has a nontaxable distribution of \$20,000, an ordinary loss of \$12,000
 - B. Zach will report an ordinary loss of \$32,000
 - C. Zach receives a suspended loss carryforward of \$34,000
 - D. All of the above

Answers

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1. A
2. B
3. D
4. C
5. C
6. B
7. A
8. A
9. C
10. A

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Explanations

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1. Does the holding period of stock include the holding period of the inventory transferred?

- A. Yes, it always includes it**
- B. No, it ignores past holdings
- C. Only some types of inventory
- D. Only if the inventory is real estate

In tax law, the holding period of stock can indeed include the holding period of the inventory that is transferred to the stock. This concept is important because it can significantly affect the treatment of gains and losses when the stock is ultimately sold. When a business transfers inventory to shareholders in exchange for stock, the time that the inventory was held by the business contributes to the holding period of the stock for the shareholders. This is particularly relevant in determining whether the gain on the eventual sale of the stock is classified as a long-term or short-term capital gain, which can affect the tax rate applied to the gain. By including the holding period of the inventory, shareholders can potentially benefit from long-term capital gains treatment if the inventory has been held for more than a year before the transfer. This is crucial for tax planning as it helps minimize tax liability. Choices that suggest the holding period does not include previous holdings or only applies under specific circumstances fail to acknowledge the comprehensive nature of the holding period rules as defined by tax regulations, which favor consistency in evaluating the asset's historical ownership. Thus, the correct response accurately reflects the tax treatment concerning the combination of holding periods for both stock and transferred inventory.

2. What is the basis of property inherited from a deceased individual according to tax regulations?

- A. Original purchase price
- B. Value at the time of inheritance**
- C. Market value prior to the decedent's death
- D. Average cost basis over time

The correct understanding of the basis of property inherited from a deceased individual is that it is generally determined by the value of the property at the date of the decedent's death, often referred to as the "stepped-up basis." This means that the beneficiary receives the property at its fair market value at the time of inheritance rather than the original cost that the deceased paid for it. This adjustment can significantly affect the amount of capital gains tax incurred when the beneficiary eventually sells the property. By using the fair market value at the date of death, the beneficiary can potentially reduce capital gains tax liability, as appreciation during the period of the decedent's ownership is effectively ignored for tax purposes. This approach provides relief to heirs and makes it easier for them to manage assets without unfair tax burdens from prior appreciation that the decedent experienced.

3. Why is Jillian's long-term capital gain taxed at 25% if she is in the higher tax bracket?

- A. Because it is subject to alternative tax rates.
- B. Because it is considered ordinary income.
- C. Because she cannot be subjected to lower rates.
- D. Because of her taxable income amount.**

Jillian's long-term capital gain is taxed at 25% because of her taxable income amount. In the U.S. tax system, long-term capital gains are generally taxed at preferential rates compared to ordinary income. However, these rates can vary depending on the taxpayer's income level. For individuals in higher income brackets, the maximum tax rate on long-term capital gains can be higher than the commonly discussed rates of 0% or 15%. As of the current tax guidelines, when a taxpayer's income surpasses a certain threshold, the rate on long-term capital gains can climb up to 20%, and in some specific cases, such as high-income earners subject to the Net Investment Income Tax, it can reach 25%. Thus, if Jillian's overall taxable income places her in a higher tax bracket, it would subject her long-term capital gain to the increased tax rate of 25%, reflecting the specific thresholds set by tax legislation for those gain amounts in relation to her total income. Understanding taxable income is essential to grasp why Jillian faces this specific rate on her capital gains.

4. Which taxpayer qualifies as head of household in 2021?

- A. Marco only.
- B. Tammy only.
- C. Marco and Juan only.**
- D. Marco, Tammy, and Juan.

To qualify as head of household for tax purposes, a taxpayer must meet specific criteria outlined by the IRS. This includes being unmarried or considered unmarried on the last day of the tax year, having a qualifying person live with them for more than half the year, and paying more than half of the household expenses. In this case, if Marco and Juan both meet these criteria, it indicates they are unmarried, support a qualifying person, and handle more than half of their living expenses. Meanwhile, Tammy may not meet the requirements, such as being married or not having a qualifying child or dependent living with her. Thus, the option that identifies Marco and Juan as heads of household accurately reflects their eligibility under the tax law for that filing year. The choice that includes Marco and Juan is consistent with the head of household qualifications, which requires careful consideration of their living situations and dependency relationships within the household structure.

5. What defines a long-term holding period for capital assets?

- A. Held for 6 months or less.
- B. Held for greater than 6 months.
- C. Held for greater than 12 months.**
- D. Held for 24 months or less.

A long-term holding period for capital assets is defined as being held for greater than 12 months. This designation is significant for tax purposes, as long-term capital gains are typically taxed at lower rates than short-term capital gains. Investors benefit from this classification when they sell an asset that they have held for more than one year, as the tax implications differ significantly, promoting longer-term investment strategies. The 12-month threshold is a key factor in determining the treatment of capital gains on tax returns, allowing taxpayers to plan their selling strategies accordingly to optimize tax outcomes. This distinction encourages investors to hold their investments longer in hopes of achieving greater returns while also benefiting from favorable tax rates.

6. Which of the following would not qualify for like-kind exchange treatment?

- A. Real property in the U.S. exchanged for U.S. property
- B. Real property located in the U.S. for non-U.S. property**
- C. Land for investment land
- D. U.S. real property for another U.S. real property

In the context of like-kind exchanges, the correct answer highlights an important rule that governs the tax treatment of property exchanges. Like-kind exchange treatment, as established under Internal Revenue Code Section 1031, allows for the deferral of capital gains taxes when certain types of properties are exchanged for one another. However, one of the key stipulations is that the properties involved must be of the same nature or character. The scenario involving real property located in the U.S. being exchanged for non-U.S. property does not qualify for like-kind exchange treatment because the properties are not of the same type – one is domestic real estate and the other is foreign real estate. This fundamental distinction excludes the transaction from the provisions that enable tax deferral under like-kind exchange rules. On the other hand, transactions involving U.S. real property exchanged for other U.S. properties, such as land for investment land or real property for other U.S. real property, meet the like-kind exchange criteria because they remain within the category of real property. Thus, these exchanges preserve the investment nature and characteristics required for qualification under the code.

7. What is the § 1245 recapture gain amount for Blue Company when they sold machinery for \$45,000 that had an adjusted basis of \$34,200?

- A. \$0 § 1231 gain, \$10,800 § 1245 recapture gain, \$0 § 1231 loss.**
- B. \$0 § 1231 gain, \$0 § 1245 recapture gain, \$14,800 § 1231 loss.
- C. \$0 § 1231 gain, \$34,200 § 1245 recapture gain, \$0 § 1231 loss.
- D. \$0 § 1231 gain, \$10,800 § 1245 recapture gain, \$34,200 § 1231 loss.

To determine the § 1245 recapture gain for Blue Company, it is essential to analyze the sale of the machinery in the context of tax law related to depreciable property. The initial sale price of the machinery was \$45,000, and it had an adjusted basis of \$34,200. The recapture rule under § 1245 applies when a taxpayer sells depreciable personal property and realizes a gain. The gain up to the amount of prior depreciation taken is classified as § 1245 recapture gain. In this scenario, the total gain from the sale can be calculated as follows: 1. Sales Price: \$45,000 2. Adjusted Basis: \$34,200 3. Gain = Sales Price - Adjusted Basis = \$45,000 - \$34,200 = \$10,800 Since the entire gain (\$10,800) is less than or equal to the amount depreciated (which is not specified but presumed to be at least \$10,800), this entire amount is subject to recapture under § 1245. Thus, Blue Company recognizes a § 1245 recapture gain of \$10,800. Furthermore, because the gain realized is the full amount of the rec

8. What is the most common method for searching electronic databases?

- A. Keyword approach.**
- B. Boolean search.
- C. Phrase matching.
- D. Title search.

The keyword approach is often considered the most common method for searching electronic databases because it allows users to input specific terms or phrases related to their research topic, which the database then uses to retrieve relevant results. This method is straightforward and accessible, making it easy for individuals to formulate searches without needing extensive knowledge of the database structure or advanced search techniques. Users typically enter one or more keywords that they believe are central to their topic, and the database compiles a list of resources that include those keywords, regardless of where they appear in the material. This flexibility makes the keyword approach appealing, especially for users who may not have a clear or sophisticated understanding of the subject matter they are researching. While other search methods, such as Boolean search, phrase matching, and title search, can enhance search efficacy or narrow results, they may require additional knowledge or familiarity with specific search syntax or strategies that not all users possess. Therefore, the keyword approach remains the go-to method for a wide range of users and applications in electronic database searches.

9. Which of the following describes the treatment of distributions from a partnership?

- A. They are always taxable events
- B. They increase the partner's basis
- C. They reduce the partner's basis**
- D. They are considered capital gains

In the context of partnership distributions, the correct treatment is that they reduce the partner's basis in the partnership. This is based on the principle that distributions made to partners reduce their investment in the partnership, which is represented by their basis. When a partner receives a distribution, this is typically considered a return of capital up to the amount of their basis. Since the distribution decreases the partner's remaining investment in the partnership, it serves to reduce the basis. If a distribution exceeds the partner's basis, the excess would then be treated as a capital gain. This understanding is crucial in accurately determining the tax implications and overall basis of a partner in a partnership, especially as it relates to future distributions or sales of partnership interest. Other options suggest different treatments of the distributions. Some imply that all distributions are taxable events or influence the partner's basis in opposing ways, which does not align with the general principles governing partnership taxation. Understanding the basis reduction upon distribution is key for effective tax planning and compliance.

10. What is the impact of the \$20,000 distribution and partnership tax-exempt income on Zach's reported losses?

- A. Zach has a nontaxable distribution of \$20,000, an ordinary loss of \$12,000**
- B. Zach will report an ordinary loss of \$32,000
- C. Zach receives a suspended loss carryforward of \$34,000
- D. All of the above

The correct choice highlights that Zach has a nontaxable distribution of \$20,000 along with an ordinary loss of \$12,000. In partnerships, distributions do not typically trigger any tax liability for the partner at the time of distribution. Instead, they may impact the partner's basis in the partnership, which could affect overall loss calculations. In Zach's case, he is receiving a distribution that is not taxable. This distribution would not be included in his income but will reduce his basis in the partnership, thus affecting any reported losses. The \$12,000 ordinary loss reported indicates that Zach has incurred an actual economic loss from his partnership interest during the reporting period, which can be used to offset other income, subject to basis limitations. Understanding these components is crucial. Firstly, the nontaxable nature of the distribution helps to clarify that Zach does not need to pay taxes on that amount right away. Secondly, the ordinary loss indicates that while he may not recognize the distribution as taxable income, he still has a significant loss that could have implications for his overall tax situation, especially if there are limitations on how much loss he can utilize based on his basis in the partnership. In this context, the focus is on just one ordinary loss and the

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://advtaxconcept175.examzify.com>

We wish you the very best on your exam journey. You've got this!

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